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Pine Point Mines Limited

Annual Report 1982



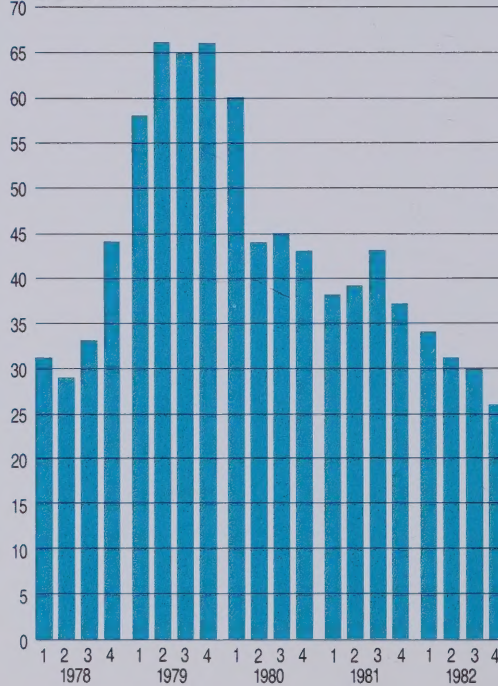
Pine Point Mines Limited

1982 ANNUAL REPORT

(all tonnage figures in this report are in short tons)

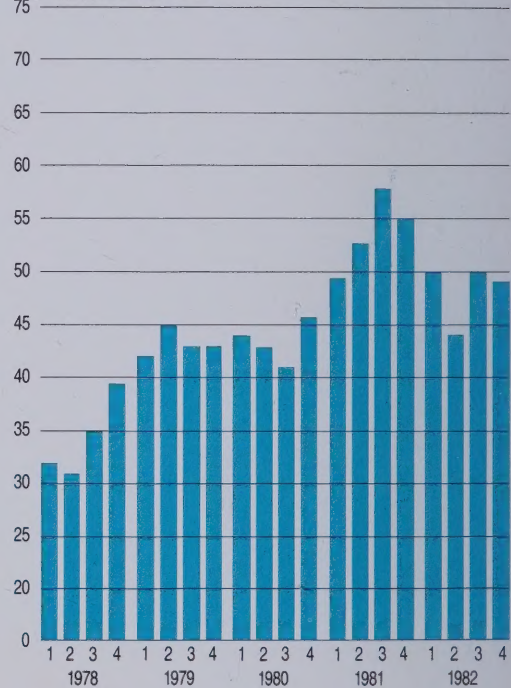
1. LEAD PRICES - Quarterly averages 1978-1982

LME CANADIAN EQUIVALENT CENTS PER LB.

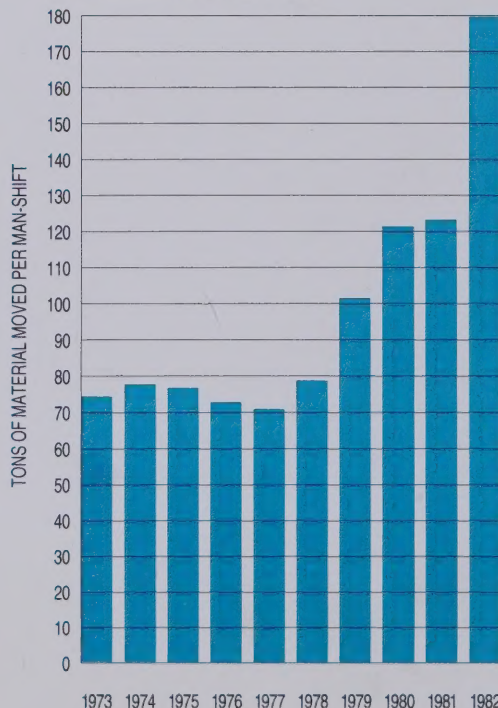


2. ZINC PRICES - Quarterly averages 1978-1982

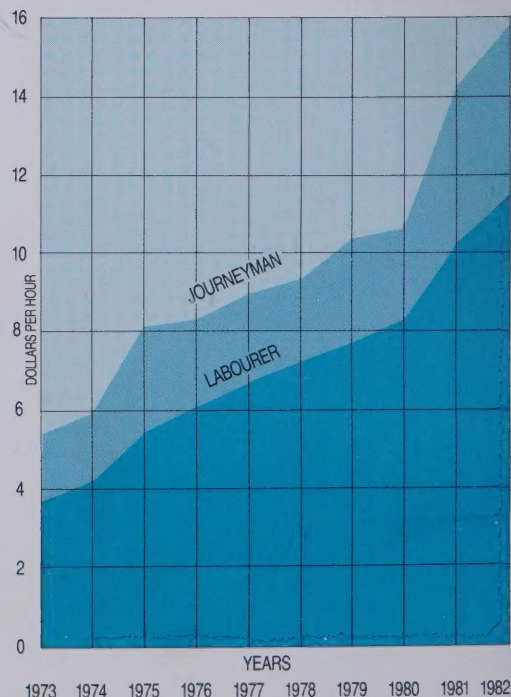
CANADIAN CENTS PER LB.



3. PRODUCTIVITY 1973-1982



4. WAGE RATES 1973-1982



Pine Point Mines Limited

HIGHLIGHTS — 5 Year

(all dollar amounts in millions except per share amounts)

OPERATIONS

Sales of products	\$ 87.9	\$126.1	\$106.7	\$143.5	\$ 88.5
Net earnings (loss)	(9.0)	22.4	25.4	43.2	18.1
— per common share	(1.99)	4.97	5.62	9.57	4.00
Funds from operations	3.0	37.8	35.9	54.6	26.1
— per common share	0.67	8.37	7.95	12.08	5.77
Dividends on common shares	nil	20.3	27.1	27.1	7.9
— per common share	nil	4.50	6.00	6.00	1.75
Capital expenditures	8.2	10.9	20.6	7.4	11.1
Pit preparation costs	14.9	12.1	6.1	3.0	2.1
Total employment cost	22.6	21.1	16.1	15.1	13.7
Number of employees	591	648	611	569	552

FINANCIAL POSITION

Assets:					
— Working capital	\$ 7.6	\$ 13.7	\$ 19.2	\$ 37.1	\$ 20.0
— Fixed assets (net)	59.9	59.3	55.1	39.7	38.7
— Other assets	20.7	14.5	7.6	3.1	1.3
	\$ 88.2	\$ 87.5	\$ 81.9	\$ 79.9	\$ 60.0
Represented By:					
— Long-term debt	\$ 13.8	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
— Income taxes not currently payable	12.0	16.0	12.5	8.8	5.0
— Shareholders' equity	62.4	71.4	69.3	71.0	54.9
	\$ 88.2	\$ 87.5	\$ 81.9	\$ 79.9	\$ 60.0
Return on assets — %	nil	26.5	31.4	61.8	33.5
Return on shareholders' equity — %	nil	31.9	36.2	68.6	36.3

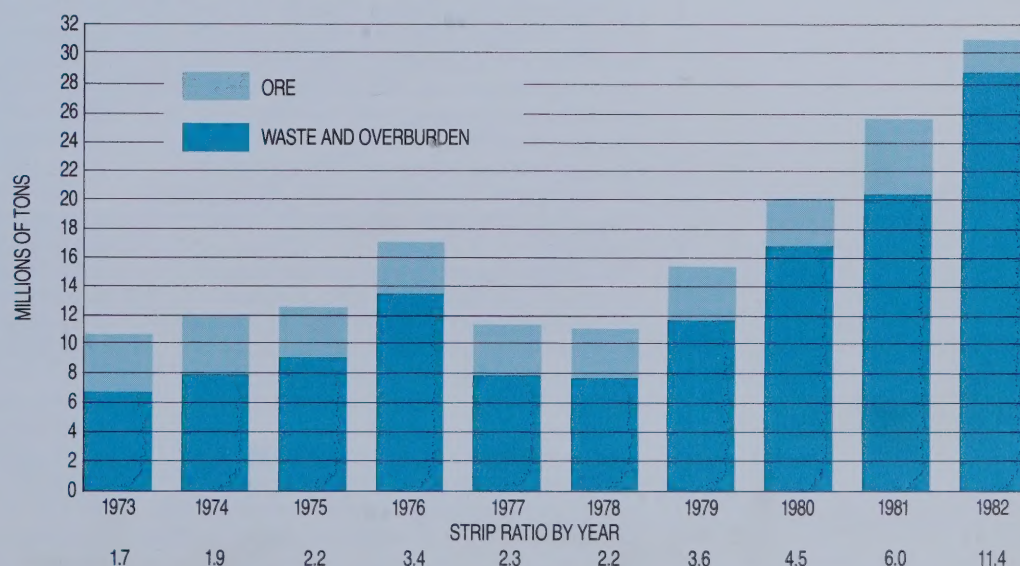
SALES

Lead concentrate (tons)	72,000	91,000	66,000	84,000	95,000
— (grade %)	(76.5)	(77.1)	(76.0)	(73.6)	(76.5)
Zinc concentrate (tons)	279,000	292,000	306,000	328,000	306,000
— (grade %)	(57.3)	(58.4)	(57.7)	(57.2)	(58.5)

SHARE MARKET PRICE

— high	\$45- ⁵ / ₈	\$57	\$51- ³ / ₄	\$38- ¹ / ₄	\$28
— low	\$20	\$38- ¹ / ₂	\$32	\$23- ³ / ₈	\$18

5. TONS OF MATERIAL MOVED 1973-1982

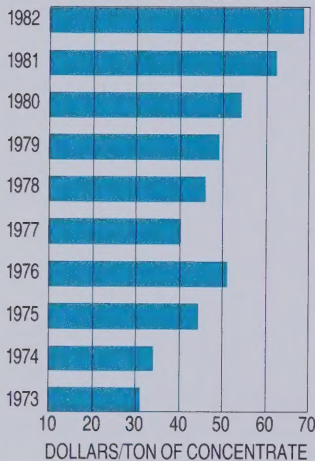


Pine Point Mines Limited

32nd REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

(1981 comparative figures in parentheses)

6. RAIL FREIGHT COSTS 1973-1982



The Year in Review

The depressed state of base metal markets in 1982 resulted in the Corporation's first annual loss which amounted to \$9.0 million. Continuing low prices for lead and zinc concentrates, coupled with increasing costs, led to the decision to temporarily shut down mining and milling operations on January 2, 1983. The shutdown will be reviewed on a monthly basis and operations will resume when economic conditions permit.

Despite the difficult year, a significant improvement in operating performance was achieved, and a major high-grade ore deposit, N-81, was delineated (see map).

Revenue and Earnings

The loss for the year was \$9.0 million or \$1.99 a share, compared with net earnings of \$22.4 million or \$4.97 a share in 1981. No dividends were paid in 1982; dividends paid in 1981 were \$4.50 a share, amounting to \$20.3 million.

Sales revenue was lower due to lower sales tonnages and to lower prices received for concentrates.

Concentrate sales were \$87.9 million compared with \$126.1 million in 1981. Sales volumes of lead concentrate were 72,000 tons (91,000). At year-end, 8,600 tons of lead concentrate were stockpiled at Vancouver, and a further 19,300 tons remained at the plant for shipment to Japan in 1983. Zinc concentrate sold was 279,000 tons compared with 292,000 tons in 1981.

Lead metal prices declined steadily from the levels quoted in mid-1979 when a high of 66 cents Canadian per pound was being quoted. Prices quoted at the beginning of 1982 were 37 cents Canadian a pound and at year-end 26 cents a pound, a decrease of 11 cents a pound (30 per cent). The average price on the London Metal Exchange for the year was 30.4 cents compared with 40 cents for 1981. Zinc metal prices started the year at a quoted price of 50.7 cents Canadian a pound and then dropped dramatically during the first half of the year. Average prices for the year were 48.6 cents compared with 53.7 cents in 1981. Price trends of lead and zinc metal are shown in Charts 1 and 2.

In addition to reduced sales revenues, increased operating costs of \$5.6 million adversely affected earnings. The higher cost of stripping waste, inflationary pressures, and union contract increases caused costs to escalate. Charts 4, 5 and 6 illustrate these increases.

Early in the year it was recognized that poor market conditions were likely to persist and exceptional efforts were made to contain costs and conserve cash. A revised mining and milling plan introduced in the first quarter reduced

production from lower grade ore sources, placed the concentrator on a five-day week, curtailed operating and capital expenditures, and froze hiring and the salaries of non-union staff. Subsequently, in a further program to reduce costs, the Corporation initiated discussions with officials of the railroad, smelter, Northern Canada Power Commission, Federal Government and the Union Local towards the objective of gaining concessions. These issues were not resolved, losses continued to accumulate, and the decision was made to shut down operations temporarily and wait for better economic conditions.

Funds generated from operations amounted to \$3.0 million (\$37.6). In order to complete required new buildings and equipment and meet the cost of preparing new pits for mining, the Corporation borrowed \$13.7 million. Interest cost was \$1.4 million.

During the year the Corporation increased its bank line of credit to \$30 million to finance operations and capital programs. The terms of the bank loans provide for a three-year revolving term, convertible before 1986 into five-year term loans with interest related to prime bank rates.

Operations

Ore treated in the concentrator totalled 2,445,000 tons (3,636,000) with an average grade of 3.0 (2.0) per cent lead and 7.3 (4.8) per cent zinc. Production was 85,000 tons (86,000) of lead concentrate and 287,000 tons (274,000) of zinc concentrate.

Year-end inventories showed 28,000 tons (15,000) of lead concentrate and 15,000 tons (7,000) of zinc concentrate.

The significant drop in ore tonnage milled reflects the revised operating plan adopted early in the year which placed the concentrator on a five-day week. The revised mining plan reduced mill throughput while improved mill feed grades accounted for higher production of concentrates during the year.

Concentrate grades were 76.5 (77.1) per cent lead and 57.3 (58.4) per cent zinc. Grades were lower due to the nature of the ore sources which made separation of lead and zinc more difficult.

Mine production came from 11 pits compared with eight in 1981. Three more pits were being prepared for production at year end. During 1982 five pits were mined out. The higher number of production areas reflects the trend towards smaller tabular ore bodies with significantly higher strip ratios. The tabular pit X-53 (see map) was the largest producer, contributing 38 per cent of the year's mill feed.

Waste and overburden removed during the year totalled 28.6 million tons (21.7), an increase of 32 per cent. The dragline removed 7.3 million tons (6.9) of waste and overburden. Soft ground conditions for the dragline made it necessary to rehandle 2.4 million tons of this material to

reduce the steepness of pit wall slopes.

New equipment purchases improved operating performance by providing the means to achieve significant gains in labour productivity. During the year the truck/shovel fleet, modernized and expanded from 45 pieces of equipment to 51, hauled a total of 2.5 million tons (3.7) of ore, 10.4 million tons (8.1) of waste and 6.6 million tons (1.3) of overburden. A contractor removed an additional 4.3 million tons (5.4) of overburden in order to meet stripping requirements.

Preparation of the N-81 pit for production proceeded on schedule with construction of a haul road and a two-mile power transmission line to the pit. A start was made on a major drainage ditch project, and a dry facility was completed.

Drainage of production areas is necessary for year-round mining on the property because much of the ore lies below the water table. In 1982, 25 wells were drilled, some at the N-81 pit, to draw down the water table.

Exploration

The 1982 exploration program confirmed the existence of two million additional tons of ore in the large prismatic N-81 deposit initially found in 1981. The deposit contains about three million tons of ore grading approximately 7 per cent lead and 14 per cent zinc.

The N-81 orebody is expected to become the most important producer at Pine Point over the next five years and the third largest pit in terms

of total metal tonnage mined from one area of the property. The ore body is prismatic and deep by Pine Point standards, necessitating a complex pit design. The deposit is covered by 70 feet of overburden and 35 to 70 feet of caprock. The mining plan developed allows ore to be recovered before stripping is complete.

Exploration expenditures amounted to \$3.7 million compared with \$2.8 million in 1981. The geophysical program of induced polarization completed the survey of 268 line miles (237) while a total of 142,000 feet (129,000) of exploration diamond drilling was accomplished.

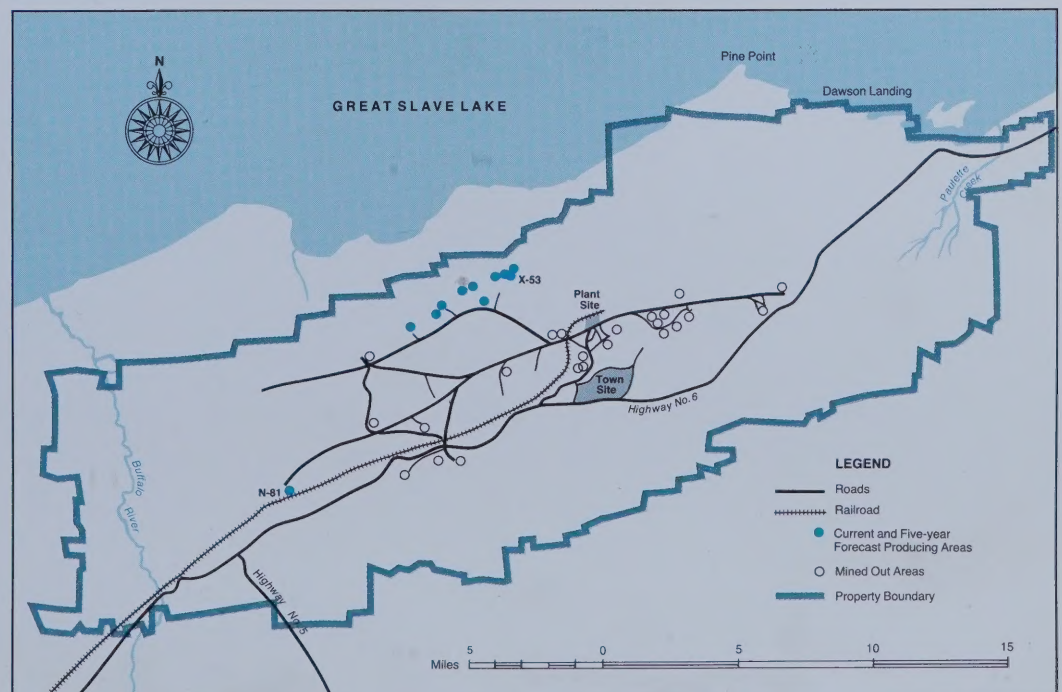
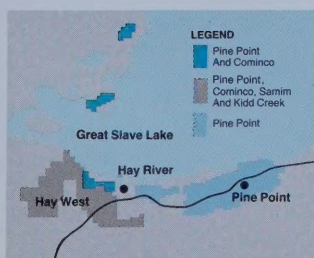
An additional 223,000 feet (157,000) were drilled to outline ore zones being prepared for production.

Rising mining costs and higher strip ratios required the removal of some uneconomical ore from reserves. However, the addition of the high-grade ore in the new N-81 ore zone resulted in the contained metal of 1982 ore reserves remaining at the same level as in 1981.

	Tons of ore	Ore Grade		Contained Metal	
		% Lead	% Zinc	Lead (tons)	Zinc
1981	41,300,000	1.9	5.4	805,000	2,239,000
1982	35,200,000	2.4	6.1	847,000	2,141,000

Exploration plans will continue to emphasize activity in areas of the property where opportunities are most favourable for locating prismatic ore.

Exploration at the Hay West Joint Venture property in which the Corporation holds a 29 per cent interest continued in 1982 but the seismic



results were unsuccessful in locating obvious exploration targets. Work was suspended for 1983 because of low metal prices.

Capital Projects

During 1982 a total of \$8.2 million was invested in buildings and equipment to increase efficiency and productivity and to improve the work environment.

Additional loading and hauling capacity was added to the heavy equipment fleet to meet the demands of increased strip ratios and longer hauls. In April a new 17-cubic-yard electric shovel costing \$3.1 million was commissioned. It started operating in May. Seven new 85-ton haulage trucks put into service in December, 1981, contributed, with the electric shovel, to productivity gains. Chart 3 shows the extent of the increase in productivity per man-shift over 10 years.

To maintain the expanded mining fleet, the heavy equipment shop area was increased by 50 per cent by extending existing shops at a cost of \$2.5 million. The expansion was completed on schedule and the new shops became operational in October.

An additional \$2.6 million was spent on items which included the N-81 powerline, and service vehicles.

Personnel

The work force decreased to 591 at year-end compared with 648 in 1981 as a consequence of the hiring freeze and of placing the concentrator on a five-day week. There was a significant decrease in turnover of both staff and general roll employees compared with previous years.

The Corporation's Apprenticeship Program, the largest in the private sector in the Northwest Territories, continued at a high level of activity, providing labour skills for the present and the future. Sixteen apprentices achieved journeyman status in 1982 compared with 14 in 1981. The Corporation continued to offer scholarships to graduates from local high schools for trades training.

The frequency of accidents increased slightly over 1981. Five accidents occurred for each 200,000 hours worked, as against four in 1981 and six in 1980. The severity rate increased from 97 days lost in 1981 to 110 days lost in 1982 for each 200,000 hours worked. A major effort is being made to improve job safety.

The employees at Pine Point Operations responded to the challenge of 1982 with loyalty and dedication. While the non-union staff did not receive salary adjustments, the general roll employees received a wage increase in accordance with the terms of the collective agreement.

Mr. W. R. Hargrave was appointed Vice-President and General Manager effective October 29, 1982. During the year Mr. H. M. Giegerich resigned from the Board and in October, 1982, the Board appointed Mr. J. M. Willson to fill the vacancy.

The Board expresses its thanks to all employees for their efforts and dedication to the Corporation during a difficult year.

For the Board of Directors,



R. P. Douglas,
President and Chief Executive Officer
Yellowknife, N.W.T.

MANAGEMENT'S STATEMENT ON FINANCIAL REPORTING

AUDITORS' REPORT

The accompanying financial statements of Pine Point Mines Limited have been prepared in accordance with generally accepted accounting principles considered to be appropriate in the circumstances. The statements and all of the information contained in the Annual Report are the responsibility of management and are approved by the Board of Directors of the Corporation. Financial and operating information appearing in the body of the Annual Report is consistent with that contained in the financial statements.

The financial statements of Pine Point Mines Limited are examined by the Corporation's external auditor, Thorne Riddell, and their report is included herein.

To the Shareholders of
Pine Point Mines Limited

We have examined the balance sheet of Pine Point Mines Limited as at December 31, 1982 and the statements of earnings, earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the corporation as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell

Vancouver, Canada
January 21, 1983

Chartered Accountants

Pine Point Mines Limited

STATEMENT OF EARNINGS

Year Ended December 31, 1982

	1982	1981
	(thousands)	
REVENUE		
Domestic sales	\$ 72,153	\$104,102
Export sales	15,767	22,013
	87,920	126,115
Income from investments	302	2,637
	88,222	128,752
COSTS AND EXPENSES		
Cost of product sold	61,398	60,233
Distribution	30,225	28,063
General, administrative and selling	2,748	2,822
Debt interest and expense	1,366	18
Depreciation and depletion	7,518	6,511
	103,255	97,647
EARNINGS (LOSS) BEFORE INCOME TAXES	(15,033)	31,105
INCOME TAXES		
Current	(2,010)	5,196
Not currently payable	(4,043)	3,483
	(6,053)	8,679
NET EARNINGS (LOSS)	\$ (8,980)	\$ 22,426
EARNINGS (LOSS) PER SHARE	\$ (1.99)	\$ 4.97

Pine Point Mines Limited

(Incorporated under the laws of Canada)

BALANCE SHEET AT DECEMBER 31, 1982

ASSETS

CURRENT ASSETS

	1982	1981
	(thousands)	
Cash and short-term investments	\$ —	\$ 8,922
Trade accounts receivable	913	5,513
Inventories (note 2)	13,390	11,610
Prepaid expenses	1,901	1,263
	<u>16,204</u>	<u>27,308</u>

FIXED ASSETS

Land, buildings and equipment	108,281	101,437
Less accumulated depreciation	50,694	45,497
	<u>57,587</u>	<u>55,940</u>
Mining properties and development	9,147	10,136
Less accumulated depletion	6,851	6,806
	<u>2,296</u>	<u>3,330</u>

DEFERRED PIT PREPARATION COSTS

	20,705	14,514
	<u>\$ 96,792</u>	<u>\$101,092</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 8,611	\$ 10,512
Income taxes	—	3,067
Long-term debt due within one year	9	9
	<u>8,620</u>	<u>13,588</u>

LONG-TERM DEBT (Note 3)

	13,811	120
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INCOME TAXES PROVIDED BUT NOT CURRENTLY PAYABLE

	11,941	15,984
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SHAREHOLDERS' EQUITY

CAPITAL

Authorized — unlimited		
Issued and fully paid		
4,516,363 shares without par value	29,161	29,161

EARNINGS REINVESTED IN THE BUSINESS

	33,259	42,239
	<u>62,420</u>	<u>71,400</u>
	<u>\$ 96,792</u>	<u>\$101,092</u>

Contingent liability (note 4)

Approved by the Board

W. Gibson

Director

R. P. Douglas

Director

Pine Point Mines Limited

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1982

	1982	1981
	(thousands)	
SOURCE OF FUNDS		
Funds provided from operations		
Net earnings (loss)	\$ (8,980)	\$ 22,426
Add:		
Depreciation and depletion	7,518	6,511
Amortization of deferred pit preparation costs	8,640	5,181
Income taxes not currently payable	(4,043)	3,483
Gain on sale of assets	(93)	(34)
	3,042	37,567
Proceeds from sale of assets	199	251
Additional long-term debt	13,700	—
	16,941	37,818
APPLICATION OF FUNDS		
Deferred pit preparation costs	14,831	12,075
Buildings and equipment	8,237	10,940
Repayment of long-term debt	9	9
Dividends	—	20,324
	23,077	43,348
DECREASE IN WORKING CAPITAL	6,136	5,530
WORKING CAPITAL AT BEGINNING OF YEAR	13,720	19,250
WORKING CAPITAL AT END OF YEAR	\$ 7,584	\$ 13,720

Pine Point Mines Limited

STATEMENT OF EARNINGS REINVESTED IN THE BUSINESS

Year Ended December 31, 1982

	1982	1981
	(thousands)	
AMOUNT AT BEGINNING OF YEAR		
Net earnings (loss)	\$ 42,239	\$ 40,137
	(8,980)	22,426
	33,259	62,563
Dividends (Nil per share; 1981 — \$4.50)	—	20,324
AMOUNT AT END OF YEAR	\$ 33,259	\$ 42,239

Pine Point Mines Limited

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 1982

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Corporation are prepared using accounting principles generally accepted in Canada and on a basis consistent with the previous year.

INVENTORIES

Inventories of concentrates are valued at the lower of cost (determined on the monthly average method) and net realizable value. Stores and operating supplies are valued at average cost less appropriate allowances for obsolescence.

LAND, BUILDINGS AND EQUIPMENT

Land, buildings and equipment are recorded at cost and include the cost of renewals and betterments. Repairs and maintenance costs are charged against earnings as incurred. Depreciation is calculated on a straight-line basis related to the lesser of the economic life of the asset or the remaining life of the mine. Depreciation is not provided on major additions until commencement of commercial production.

MINING PROPERTIES AND DEVELOPMENT

Expenditures on general exploration and development are charged against earnings as incurred. Expenditures on the development of new mining properties are capitalized and amortized against earnings by charges for depletion based on the estimated life of ore reserves. The costs of preparing individual pits for ore extraction are deferred and amortized on the basis of units of production.

INCOME TAXES

Income tax laws in Canada permit the deduction of depreciation and other items from income to determine taxable income at times which do not coincide with those used for regular financial reporting purposes. These differences in timing of deductions result in taxes being provided but not currently payable.

Tax savings from investment tax credits are reflected in earnings as a reduction in current income tax expense as they are realized.

FOREIGN CURRENCY TRANSLATION

Current assets and current liabilities denominated in foreign currencies are translated at year-end rates of exchange. The resulting exchange adjustments are included in the determination of earnings.

REVENUE RECOGNITION

Revenues are recorded in the accounts when title passes to the buyer. Revenues are estimated at the time of sale and may be subject to adjustment on final settlement to reflect changes in metal prices, weights and assays.

EARNINGS PER SHARE

Earnings per common share are calculated by dividing net earnings by the average number of shares outstanding during the year.

2. INVENTORIES

	1982	1981
	(thousands)	
Concentrates	\$ 5,929	\$ 3,999
Stores and operating supplies	7,461	7,611
	<u>\$13,390</u>	<u>\$11,610</u>

3. LONG TERM DEBT (excluding amount due within one year)

	1982	1981
	(thousands)	
Bank loans with an initial three-year revolving term convertible before 1986 into five-year term loans with interest related to prime bank rates	\$13,700	\$ —
7% housing mortgages	111	120
	<u>\$13,811</u>	<u>\$ 120</u>

Payments required on long term debt, assuming the conversion of the revolving loans into five-year term loans in 1985, are: 1983 — \$9,000; 1984 — \$9,000; 1985 — \$10,000; 1986 — \$2,751,000; 1987 — \$2,751,000.

4. CONTINGENT LIABILITY

In 1981, Revenue Canada initiated a proposal which could result in additional income taxes of approximately \$2,000,000 relating to years subsequent to 1977. Since the outcome is not determinable, no provision has been made in the accounts.

5. RELATED PARTY TRANSACTIONS

Cominco Ltd., the Corporation's majority shareholder, manages the Corporation's operations and is reimbursed for all costs incurred.

In 1982, Cominco Ltd. and associated companies of Cominco purchased at fair market value 91% (1981 — 100%) of the quantity of lead concentrate and 98% (1981 — 88%) of the zinc concentrate sold by the Corporation.

Accounts receivable include nil (1981 — \$898,000) from related parties. Accounts payable and accrued liabilities include \$971,000 (1981 — \$501,000) to related parties.

6. INDUSTRY SEGMENT

The Corporation operates solely in the mining industry producing lead concentrate and zinc concentrate.

SHAREHOLDER INFORMATION

Head Office

Yellowknife, N.W.T.
c/o Cominco Ltd.

Mailing Address

c/o Cominco Ltd.
2300 — 200 Granville Street
Vancouver, B.C.
V6C 2R2

Directors

R. P. Douglas
R. G. Duthie
H. T. Fargey*
G. Farquharson*
R. A. MacKimmie, Q.C.*
A. V. Marcolin
J. H. Robertson
J. M. Willson
W. G. Wilson

Officers

R. P. Douglas,
President and Chief Executive Officer
W. R. Hargrave,
Vice-President and General Manager
K. S. Benson
Corporate Secretary

* Members of the Audit Committee

Transfer Agent and Registrar

The Royal Trust Company
555 Burrard Street, Vancouver, B.C.
V7X 1K2
333 — 7th Ave. S.W., Calgary, Alberta
T2P 2Z1
P.O. Box 7500 — Station A
Toronto, Ontario
M5W 1P9

Auditor

Thorne Riddell
Vancouver, B.C.

Annual Meeting

April 22, 1983
10:00 a.m.
Shuswap Room
Four Seasons Hotel
Vancouver, B.C.

For Canadian capital gains tax purposes the valuation day value of Pine Point Mines Limited shares on December 22, 1971 as established by the Department of National Revenue was \$24.00.



Production came from 11 pits in 1982 compared with 8 in 1981.

